



FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

Financial Statements

December 31, 2001

(With Independent Auditors' Report Thereon)



2001 M Street, N.W.
Washington, D.C. 20036

Independent Auditors' Report on Financial Statements

To the Federal Financial Institutions Examination Council

We have audited the accompanying balance sheet of the Federal Financial Institutions Examination Council (the Council) as of December 31, 2001 and the related statements of revenues and expenses and changes in cumulative results of operations and cash flows for the year then ended. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements as of and for the year ended December 31, 2000 were audited by other auditors who issued an unqualified opinion thereon dated February 20, 2001.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Council at December 31, 2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated February 22, 2002 on our consideration of the Council's internal control over financial reporting and its compliance with laws and regulations. Those reports are an integral part of an audit conducted in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

February 22, 2002



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FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

BALANCE SHEETS

<u>ASSETS</u>	<u>As of December 31,</u>	
	<u>2001</u>	<u>2000</u>
CURRENT ASSETS		
Cash	\$616,667	\$821,155
Accounts receivable from member organizations	811,360	507,042
Other accounts receivable	<u>337,542</u>	<u>196,537</u>
Total current assets	1,765,569	1,524,734
FURNITURE AND EQUIPMENT		
Furniture and equipment, at cost	273,849	273,849
Less accumulated depreciation	<u>267,731</u>	<u>261,494</u>
Net furniture and equipment	<u>6,118</u>	<u>12,355</u>
Total assets	<u>\$1,771,687</u>	<u>\$1,537,089</u>
 <u>LIABILITIES AND CUMULATIVE RESULTS OF OPERATIONS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities		
payable to member organizations (Note 3)	\$1,162,636	\$743,939
Other accounts payable and accrued liabilities	87,363	136,193
Accrued annual leave	<u>28,568</u>	<u>40,104</u>
Total current liabilities	1,278,567	920,236
DEFERRED RENT (Note 5)	150,157	135,572
Total liabilities	<u>1,428,724</u>	<u>1,055,808</u>
CUMULATIVE RESULTS OF OPERATIONS	<u>342,963</u>	<u>481,281</u>
Total liabilities and cumulative results of operations	<u>\$1,771,687</u>	<u>\$1,537,089</u>

See notes to accompanying financial statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN CUMULATIVE RESULTS OF OPERATIONS

	For the years ended December 31,	
	2001	2000
REVENUES		
Assessments on member organizations (Note 3)	\$1,465,000	\$1,280,000
Tuition	1,622,523	1,811,065
Other revenue (Note 4)	2,980,125	2,993,150
Total revenues	6,067,648	6,084,215
EXPENSES		
Salaries and related benefits	1,468,134	1,419,587
Data processing	3,376,177	3,302,051
Rental of office space	600,483	589,821
Professional fees	215,151	270,105
Books and subscriptions	157,691	150,734
Other seminar expenses	81,714	94,916
Travel	80,402	98,862
Administration fees	66,117	62,966
Office and other supplies	48,547	70,596
Rental and maintenance of office equipment	48,436	93,436
Printing	47,802	69,643
Postage	8,103	20,691
Depreciation and amortization	6,237	7,870
Telephone	(3,420)	15,843
Miscellaneous	4,392	5,121
Total expenses	6,205,966	6,272,242
RESULTS OF OPERATIONS	(138,318)	(188,027)
CUMULATIVE RESULTS OF OPERATIONS, Beginning of year	481,281	669,308
CUMULATIVE RESULTS OF OPERATIONS, End of year	\$342,963	\$481,281

See notes to accompanying financial statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

STATEMENTS OF CASH FLOWS

	For the years ended December 31,	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
RESULTS OF OPERATIONS	(\$138,318)	(\$188,027)
Adjustments to reconcile results of operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,237	7,870
(Increase) decrease in assets:		
Accounts receivable from member organizations	(304,318)	(75,503)
Other accounts receivable	(141,005)	121,016
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities to member organizations	418,697	248,585
Accounts payable and accrued liabilities	(48,830)	4,865
Accrued annual leave	(11,536)	(8,580)
Deferred rent	14,585	21,536
Net cash provided by (used in) operating activities	(204,488)	131,762
CASH BALANCE, Beginning of year	821,155	689,393
CASH BALANCE, End of year	\$616,667	\$821,155

See notes to accompanying financial statements.

**FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

(1) ORGANIZATION AND PURPOSE

The Federal Financial Institutions Examination Council (the "Council") was established under Title X of the Financial Institutions Regulatory and Interest Rate Control Act of 1978. The purpose of the Council is to prescribe uniform principles and standards for the federal examination of financial institutions and to make recommendations to promote uniformity in the supervision of these financial institutions. The five agencies which are represented on the Council, referred to hereafter as member organizations, are as follows:

Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
National Credit Union Administration
Office of the Comptroller of the Currency
Office of Thrift Supervision

The Appraisal Subcommittee of the Council was created pursuant to Public Law 101-73, Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. The functions of the Appraisal Subcommittee are related to the certification and licensing of individuals who perform appraisals in connection with federally related real estate transactions. Members of the Appraisal Subcommittee consist of the designees of the heads of those agencies which comprise the Council and the designee of the head of the Department of Housing and Urban Development. Although it is a subcommittee of the Council, the Appraisal Subcommittee maintains separate financial records and administrative processes. The Council's financial statements do not include financial data for the Appraisal Subcommittee other than that presented in note 4.

2) SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on the accrual basis of accounting.

Revenues - Assessments made on member organizations for operating expenses and additions to property are based on expected cash needs. Amounts over or under assessed due to differences between actual and expected cash needs flow into "Cumulative Results of Operations" during the year and then are used to offset or increase the next year's assessment.

Tuition revenue is adjusted at year-end so that total tuition revenue equals expenses incurred by the Examiner Education office. Any difference between revenue and expense is reported in accounts payable to member organizations if revenue exceeds expense and in accounts receivable from member organizations if expenses exceed revenue.

Furniture and Equipment - Furniture and equipment is recorded at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which range from four to ten years. Upon the sale or other disposition of a depreciable asset, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is recognized.

**FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

Estimates-The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) TRANSACTIONS WITH MEMBER ORGANIZATIONS

	2001	2000
The five member organizations are each assessed one-fifth of the expected cash needs based on the annual operating budget. Annual assessment for each member organization was	\$ 293,000	\$ 256,000
The Council provides seminars in the Washington area and at regional locations throughout the country for member organization examiners and other agencies. The Council received tuition payments from member organizations in the amount of	1,528,453	1,699,315
The Board of Governors of the Federal Reserve System provided administrative support services to the Council at a cost of	66,117	62,966
Member organizations provided office space, data processing and printing services to the Council. The Council paid member organizations	3,651,730	3,593,793

The Council coordinates the production and distribution of the Uniform Bank Performance Reports (UBPR) through the Federal Deposit Insurance Corporation (FDIC). The Council is reimbursed for the direct cost of the operating expenses it incurs for this project.

Council employees are paid through the payroll systems of member organizations. Salaries and fringe benefits, including retirement benefit plan contributions disbursed on behalf of the Council are reimbursed in full to these organizations. The Council does not have any post-retirement or post-employment benefit liabilities since Council employees are included in the plans of the member organizations.

Member organizations are not reimbursed for the costs of personnel who serve as Council members and on the various task forces and committees of the Council. The value of these contributed services has not been included in the accompanying financial statements.

**FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

(4) OTHER REVENUE

	<u>2001</u>	<u>2000</u>
<u>Home Mortgage Disclosure Act (HMDA)</u>		
The Council produces and distributes reports under the Home Mortgage Disclosure Act (HMDA). The Council received the following from member organizations	\$ 1,094,758	\$ 1,227,613
The Council received the following from the Department of Housing and Urban Development (HUD) to fund HUD's participation in the HMDA project	337,125	350,082
The Council received the following from the Mortgage Insurance Companies of America for performing HMDA related work for them	271,917	168,809
The balance of the HMDA revenue for 2001 and 2000 was received from sales to the public	32,149	29,633
Total HMDA	<u>\$ 1,735,949</u>	<u>\$ 1,776,137</u>
<u>Uniform Bank Performance Report (UBPR)</u>		
The Council coordinated and provided certain administrative support to the UBPR project. The Council received the following for operating expenses incurred in support of the UBPR project	273,122	264,948
<u>Appraisal Subcommittee</u>		
The Council provided space and certain administrative support to the Appraisal Subcommittee. The Council received the following from the Appraisal Subcommittee for these services	189,387	213,537
<u>Community Reinvestment Act</u>		
The Council received the following from participating member agencies for operating expenses incurred in support of the project	781,657	738,525
<u>Miscellaneous</u>	10	3
	<u>\$ 2,980,125</u>	<u>\$ 2,993,150</u>

**FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

5) DEFERRED RENT

In 1998, the Council entered into a lease for office space. This lease contains rent abatements and scheduled rent increases, which, in accordance with accounting principles generally accepted in the United States of America, must be considered in determining the annual rent expense to be recognized by the Council. The deferred rent represents the difference between the actual lease payments and the rent expense recognized.

6) COMMITMENTS

The Council entered into operating leases to secure office and classroom space for periods ranging from two to ten years. Minimum future rental commitments under those operating leases having an initial or remaining noncancellable lease term in excess of one year at December 31, 2001 are as follows:

2002	320,232
2003	330,555
2004	347,624
2005	354,575
2006	361,526
After 2006	648,743
	<u>\$ 2,363,255</u>

Rental expenses under these operating leases were \$537,519 and \$532,096 in 2001 and 2000, respectively.



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Independent Auditors' Report on Internal Control over Financial Reporting

To the Federal Financial Institutions Examination Council

We have audited the financial statements of the Federal Financial Institutions Examination Council (the Council) as of and for the year ended December 31, 2001, and have issued our report thereon dated February 22, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In planning and performing our audit, we considered the Council's internal control over financial reporting by obtaining an understanding of the Council's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. Material weaknesses are conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may occur and not be detected. However, we noted no matters involving internal control and its operation that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the Council and management, the U.S. Office of Management and Budget, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 22, 2002





2001 M Street, N.W.
Washington, D.C. 20036

Independent Auditors' Report on Compliance with Laws and Regulations

To the Federal Financial Institutions Examination Council

We have audited the financial statements of the Federal Financial Institutions Examination Council (the Council) as of and for the year ended December 31, 2001, and have issued our report thereon dated February 22, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The management of the Council is responsible for complying with laws and regulations applicable to the Council. As part of obtaining reasonable assurance about whether the Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Council and management, the U.S. Office of Management and Budget, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 22, 2002

